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UNCLAS SECTION 01 OF 05 MEXICO 001779

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TREASURY FOR IA (RACHEL JARPE, LUYEN TRAN)
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STATE PASS TO FEDERAL RESERVE (BORA DURDU)

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TAGS: EFIN KTFN PTER MX
SUBJECT: MEXICAN BANKERS DISCUSS ANTI-MONEY LAUNDERING
EFFORTS

REF: A. MEXICO 1097
¶B. 07 MEXICO 5793
¶C. 07 MEXICO 1119

¶1. (SBU) Summary. During roundtable discussions with Embassy officials, bank compliance officers said their institutions base their anti-money laundering (AML) and combating terrorism financing (CTF) practices on international standards. They commented on how difficult it can be to stop illicit flows without harming legitimate businesses. Mexico is a particularly challenging environment given the pervasiveness of organized crime, tax evasion, and informal economic agents; the fact that Mexico is a cash intensive society; and the lack of both public information on companies and a universal identification card. A Finance Secretariat official acknowledged that complying with AML/CTF regulations is costly for financial institutions, and remarked that new regulations might make it even more expensive. The bankers said recent events involving regulated money exchange houses would shift cash flows to less regulated institutions, and they have seen a few cases of terrorism financing. The participants expressed a desire to work more closely with U.S. authorities. End Summary.

Introduction

¶2. (SBU) Embassy Mexico City held two roundtable discussions with bank compliance officers from several major banks in recent months to discuss their institutions' anti-money laundering (AML) and combating terrorism financing (CTF) efforts. ECON, FinCEN, NAS, ICE, IRS, OFAC, and DEA were represented. The Finance Secretariat's Financial Intelligence Unit (FIU) and Banking and Savings Unit also participated. (Note: Due to pressure from GOM authorities, the compliance officers would not meet with us unless we invited GOM representatives. End Note.)

An International Perspective on Compliance

¶3. (SBU) The bank compliance officers cast a positive light on their internal controls against money laundering and TF. The representatives -- all of whom were from banks that are subsidiaries of major foreign-based international banks -- said their institutions base their AML/CTF standards and practices on international standards and receive guidance from their global parent organizations. Several participants emphasized their thorough due diligence regarding clients they deem to be high risk. HSBC highlighted how it takes a "special look" at such entities as car vendors and jewelry stores. Banamex remarked that Casablanca had a huge effect on Mexican financial institutions, prompting them and the government to improve AML policies and procedures. (Note: Operation Casablanca was a U.S. Customs-led investigation that targeted and caught dozens of money launderers, including three Mexican banks, in the late 1990s. End Note.)

¶4. (SBU) Under Mexican law, banks have 30 days to report suspicious transactions to the authorities, a timeframe that is shortened to 24 hours if the bank compliance officer deems it particularly important or if the names of the individuals in question have appeared in the news. Banamex said it sees these 24-hour reports often, and that these reports are discussed during a monthly meeting of bank compliance officers.

Improved Information Sharing

¶5. (SBU) An official from the Finance Secretariat's Banking and Savings Unit said the GOM is changing AML/CTF regulations to allow Mexican banks to share information with each other regarding suspicious activity -- something that was not allowed previously because of bank secrecy laws. Implementing regulations are required to specify what kind of information can be shared. Banamex remarked that banks are not sure what the new information sharing rules will look like, but they will likely include a database where banks can post information.

¶6. (SBU) Bank compliance officers in the Mexican Banking Association (ABM) meet once a month to share experiences, discuss best practices, and talk about the regulatory environment. They are prohibited, however, from discussing individual cases. One participant, who was the head of the ABM's Compliance Committee, remarked that the ABM plays a key role in strengthening relations between private banks and the government. He added that banks talk regularly with GOM authorities about ways to avoid defensive reporting, regulations in the pipeline, etc.

¶7. (SBU) All participants indicated they would like to share more information with their parent organizations. Banamex noted that it can access transaction information on customers from its parent company (Citigroup), but it can only reciprocate on specific transactions with permission from the GOM because of Mexican privacy rules. In Banamex's case, they can see Citigroup's negative and black lists of clients, but not the actual suspicious activity reports. Santander indicated that its situation is similar. Another participant remarked that auditors from its parent company can see information if they sign a confidentiality agreement, but they cannot take copies of records with them.

KYC is Essential

¶8. (SBU) The bankers stressed the importance of "know your customer" (KYC) policies. One of the participants highlighted the need to know about the provider of the funds. That is, if a housewife or student wants to open an account, the bank needs information about who provided the individual with the funds. The participants lamented that this can hinder their ability to bank the unbanked. A FIU official said the GOM will issue new regulations that will follow Basil II methodology for low-risk accounts, meaning that banks would not have to collect as much information if the client is determined to be low risk under preset criteria.

¶9. (SBU) Banks are seeing increased public awareness about KYC. For example, if someone sells their house, they are more likely to bring a deed to confirm the transaction, while in the past they were more likely to protest that the bank had no right to such personal information.

Challenges to Combating Money Laundering

¶10. (SBU) The bankers highlighted several obstacles they face in combating illicit transactions. They noted how transactions can be routed through any number of legitimate businesses, and how it is difficult to find public

information that helps them verify a firm's legitimacy. Banks regularly see the smurfing of cash deposits at different branches. (Note: Smurfing is jargon used to describe the act of splitting a large financial transaction into smaller ones to avoid deposit-reporting requirements. End Note.) The trend now is for cash to move to gatekeepers such as car dealers and commercial entities. BBVA Bancomer said the cash is still flowing -- if you close one account, the money simply finds another way into the system.

¶11. (SBU) Myriad informal economic agents and the fact that Mexico is a cash intensive society make banks' task even more difficult. Pervasive tax evasion also presents a problem since, as one banker stated, it would be impossible to refuse to do business with those who evade taxes. This representative added that his compliance department tries to focus on serious crimes (e.g. drug trafficking and kidnapping) instead of tax evasion.

¶12. (SBU) Banamex remarked how the lack of a single identification number in Mexico (like the U.S. Social Security number) and the ease with which people can get a fake identification make it more difficult to follow an individual's activity. HSBC stressed the importance of assigning all customers a number, rather than simply assigning account numbers. This makes it easier to track the transactions of clients who have multiple accounts.

Widespread Use of U.S. Cash

¶13. (SBU) The movement of U.S. cash is prevalent in Mexico. To address this issue, banks have developed a registry to keep a record of cash intensive clients; created a policy that requires senior management approval for large U.S. cash transactions; and taken additional steps to help manage risk. For example, some banks will not accept cash when settling on a home purchase.

¶14. (SBU) When asked if the amount of U.S. cash in Mexico that cannot be accounted for by legitimate means is roughly USD 1 billion per month, the Banamex representative replied that the figure was too high. He said this figure may have been accurate in the first quarter of 2007, but banks have taken steps to reduce these flows. Some of the large U.S. cash transactions come from legal businesses that are U.S. cash intensive. It can be difficult to distinguish between

licit and illicit transactions because Mexico is a cash intensive society. One representative remarked that the vast majority of money is smuggled in the form of physical U.S. dollars. The bankers have not seen an increase in euros.

Cost of Compliance Significant

¶15. (SBU) The Finance Secretariat official acknowledged that complying with AML/CTF regulations is costly for financial institutions, and remarked that new regulations might make it even more expensive. (Note: Later this year the Banking and Securities Commission will gain the power to fine banks that fail to comply with regulations. The GOM also plans to harmonize due diligence rules among banks and regulated and unregulated exchange houses. End Note.)

¶16. (SBU) Banks have found the following regulations to be particularly costly: 1.) Identifying and reporting on wire transactions greater than $3,000; 2.) Identifying the

provider of funds; 3.) Updating customer profiles (because of the lack of a universal identification card); and 4.) Verifying a firm's legitimacy (because of a lack of publicly available information on companies). That said, the Banamex representative remarked that "the only way to be careful" is to invest in controls. He added that while niche banks that are not heavily involved in these activities need solid compliance programs, they do not need "an army of people" like the larger financial institutions.

Some Signs of TF

¶17. (SBU) While he did not provide details, one of the participants said his bank has seen a few cases of terrorism financing. He admitted that his bank is more reactive than preventative on this issue. He added that OFAC's Specially Designated Nationals and Blocked Persons list is standard for the industry, but people with common names like "Jose Garcia" make their job more difficult. The bankers said they report these cases to the Mexican authorities immediately.

Money Exchange Houses a Source of Concern

¶18. (SBU) The bankers expressed concern about events involving regulated money exchange houses called "casas de cambio" (CCs) since the Casa de Cambio Puebla case. (Note: Puebla used its correspondent accounts with Wachovia and Harris Bank to launder money on behalf of Mexican cartels. End Note.) One representative posited that there will be only four or five regulated CCs by yearend because reciprocal banks in the U.S. are ending relationships with Mexican CCs. Several participants remarked that as CCs close, cash flows will shift to less regulated institutions such as centros cambiarios (unregulated money exchange houses).

¶19. (SBU) One of the participants stressed the importance of distinguishing between CCs and centros cambiarios. Most large banks do not deal with centros cambiarios if they know it is a centro -- something that can be difficult to determine because the centros do not always advertise themselves as such. Mexico's Tax Administration Service (SAT) has 2,400 registered centros cambiarios, but industry representatives say they have 8,000-10,000 points of sale. Centros cambiarios are supposed to report large transactions to the SAT, but one banker noted that "they largely do as they please." That said, another participant acknowledged that the regulatory framework for CCs needs work -- adding that some CCs deal directly with centros cambiarios.

¶20. (SBU) Overall the banks have seen a tightening in the market since the Casa de Cambio Puebla case. They remarked that Mexican banks are being less tolerant of large U.S. cash transactions. Moreover, new regulations require banks to maintain a registry of cash intensive customers; banks have increased efforts to only accept cash from entities that can prove sources; and banks have become more adverse to large cash transactions with CCs.

Eager for Closer Cooperation With the U.S.

¶21. (SBU) The participants expressed a desire to work more closely with U.S. authorities. They want to build channels of communication so they are not taken by surprise when U.S.

organizations issue advisories or warnings about certain institutions or regions. One representative remarked that bankers see what has occurred in the casa de cambio industry and do not want their institutions to become an "example" in the news.

Comment

¶22. (SBU) The meetings with compliance officers show that Mexico is taking concrete steps to tighten its AML/CTF regime. It was heartening to see some of the measures banks have implemented to fight ML and the increased cooperation between banks and GOM authorities. Nonetheless, serious shortcomings remain, as significant amounts of money (usually narcotics-related) are still smuggled across the border. Additional work is needed to examine bank secrecy laws so they do not hinder Mexico's AML/CTF system, improve the system for reporting suspicious transactions, increase efforts to control bulk cash smuggling, improve Mexico's ability to prosecute and convict money launderers, better control the situation at money exchange houses, and fight corruption.
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